Perak Transit Berhad

Record Profit, New Contract, 35% Payouts

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OUTPERFORM ↔

Price: RM0.88
Target Price: RM1.15 ↑

Despite a pandemic-ravaged FY20, Perak Transit achieved a record-high profit of RM42m on the back of greater IPTT contributions. The Group has also secured a new TMS contract to manage Terminal Bas Shahab Perdana in Kedah, with PAT margins of c.60%. With growing recurring revenue, the Group announced quarterly dividends commitment at a minimum 35% payout. We increase FY21E CNP by 3% to RM49m and introduce FY22E CNP of RM52m. FY21E/FY22E DPS are 2.71 sen/2.88 sen. Reiterate OUTPERFORM with higher DCF-driven TP of RM1.15, in line with 4-year mean PER of 14x.

Solid FY20. FY20 CNP of RM42m exceeded our/consensus expectation of RM39m/RM40m. FY20 revenue of RM119m also exceeded our/consensus forecast of RM113m/RM116m. The deviation was mainly due to stronger-than-expected IPTT growth. FY20 DPS of 2.75 sen came below our expectation of 3.14 sen. The Group, however, paid a special dividend of 0.69 sen in 1HFY20 on top of three interim dividends. The Group also declared the first interim DPS of 0.8 sen for FY21.

Quarterly dividends with minimum 35% payout ratio. Moving forward, the Group is committed to paying quarterly dividends with a minimum payout ratio of 35%. *(Refer overleaf)*

YoY, revenue fell 4% due to MCO's impact on the Group's bus and petrol station operations. However, the Group achieved a record high CNP in a pandemic-ravaged year as CNP rose 5%. Profit rose as revenue fell because the bus and petrol stations shrank as a proportion of total revenue to 41% (from 55%). The Group's high-margin IPTT segment burgeoned to 59% (from 45%) as revenue remained resilient and Terminal Kampar Putra (TKP) started contributing in September 2020. Consequently, CNP margin rose from 32% to 35%. PBT rose by 20% but was offset by a significantly higher tax rate of 14% (vs. 2% in FY19).

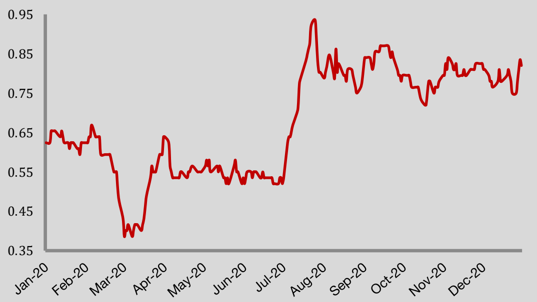
QoQ, revenue only rose 1% despite being the first full quarter with Terminal Kampar Putra's contribution as revenue from petrol station operations fell 17% due to lower sales volume and fuel price. However, CNP rose 10% thanks to higher contributions from the IPTT segment.

Terminal Bas Shahab Perdana (TBSP). The Group has secured its second terminal management services (TMS) contract to manage TBSP in Kedah. Unlike the Terminal Sentral Kuantan agreement, this TBSP contract allows the Group to collect all *commercial* revenue in TBSP. With an initial investment cost of RM6.5m spread over 15 years and minimal operating costs, we expect this contract to deliver c.60% PAT margins. With TBSP FY22E revenue of RM2.2m, a PAT contribution of RM1.3m makes up 2.5% of FY22E CNP of RM52m. *(Refer overleaf for details on TBSP)*

Post results, we increase FY21E CNP by 3% to RM49.1m (from RM47.8m) and DPS to 2.71 sen (from 2.51 sen). We also introduce FY22E CNP of RM52.2m and DPS of 2.88 sen, yielding 3.3%.

Reiterate OUTPERFORM and increase DCF-driven TP to RM1.15 (from RM1.08). We have made slight adjustments to our WACC assumption (7% from 7.7%), while our terminal growth rate assumption of 2% remains intact. Based on our FY22E CNP of RM52.2m, the current share price of RM0.88 implies a forward PER of 10.7x, below its 4-year average of 14x PER. Our TP-implied PER is at mean of 14x, which is conservative in our view as the Group continues to hit the right notes.

Share Price Performance



KLCI	1,565.05
YTD KLCI chg	-3.8%
YTD stock price chg	12.2%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PERAK MK Equity
Market Cap (RM m)	555.4
Shares Outstanding	634.7
52-week range (H)	0.98
52-week range (L)	0.37
3-mth avg daily vol:	4,770,474
Free Float	62%
Beta	1.0

Major Shareholders

Cheong Kong Fitt	13.6%
Cbs Link Sdn Bhd	11.0%
Lim Sow Keng	5.8%

Summary Earnings Table

FY Dec (RMm)	2020A	2021E	2022E
Turnover	119.4	136.0	144.5
EBITDA	78.0	85.8	94.5
PBT	49.0	53.3	56.4
Core PATAMI (CNP)	41.8	49.1	52.2
Consensus	39.7	47.9	51.0
Earnings Revision	N/A	3%	N/A
Core EPS (sen)	6.6	7.7	8.2
Core EPS growth (%)	4.9%	17.3%	6.5%
NDPS (sen)	2.75	2.71	2.88
BVPS (RM)	0.7	0.8	0.9
P/BV (x)	1.2	1.1	1.0
Core PER (x)	13.3	11.3	10.6
Net Gearing (x)	0.5	0.6	0.6
ROA (%)	5.8	5.7	5.5
ROE (%)	10.5	10.1	10.0
Net Div Yield (%)	3.1	3.1	3.3

Quarterly dividends with minimum 35% payout ratio. Moving forward, the Group is committed to paying quarterly dividends with a minimum payout ratio of 35%. We welcome this move as the Group previously practiced inconsistent payout ratios at irregular frequencies. We believe income-focused investors will view this favourably. Such a dividend commitment is also a testament to the Group's recurring and cash-generative business model. The Group also declared the first interim DPS of 0.8 sen for FY21.

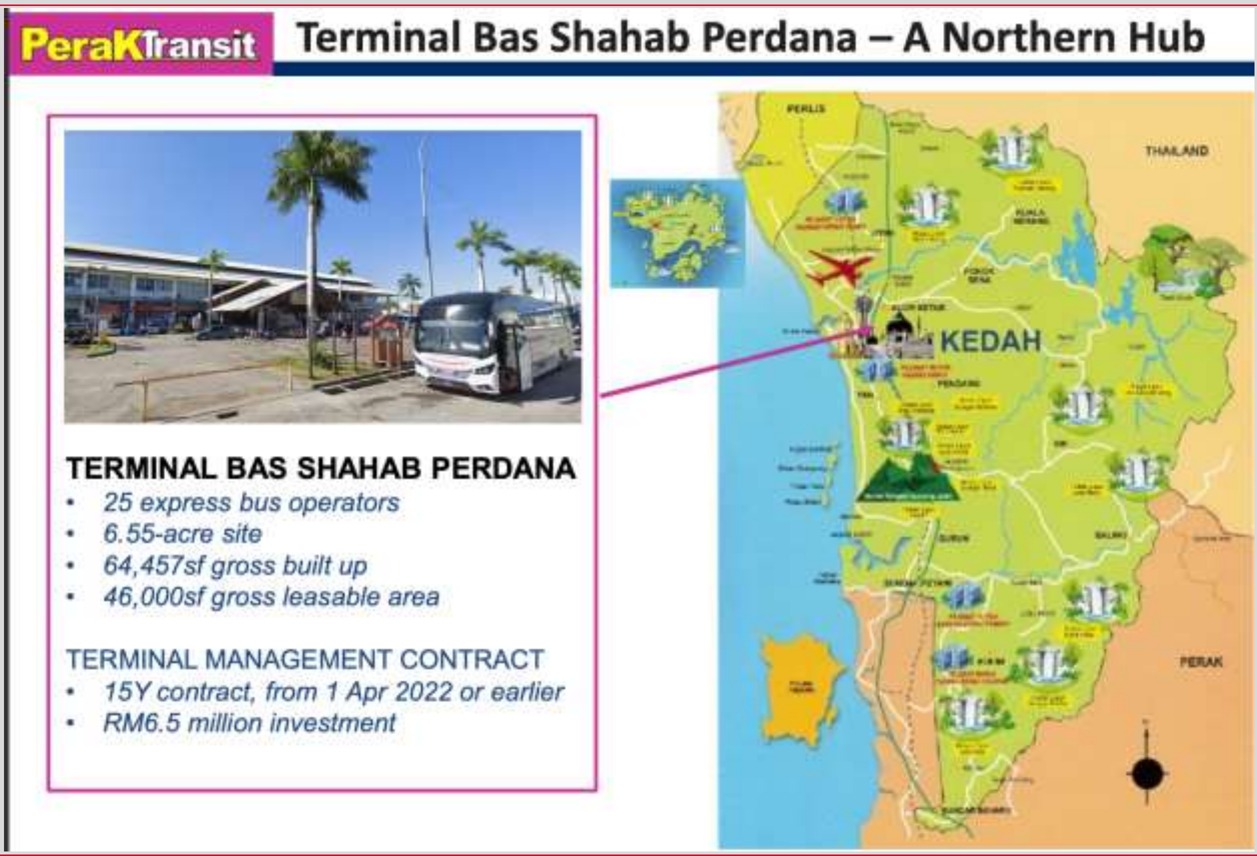
Collaboration with NSSIT to operate Terminal Bas Shahab Perdana (TBSP)
For the Group's second TMS contract, Perak Transit will collaborate with NSS IT Solution Sdn Bhd (NSSIT) to operate TBSP, the IPTT for the capital city of Kedah, Alor Setar. NSSIT is principally involved in the business of providing information technology, internet, telecommunication and related services. The contract will last for a total of 15 years. Based on management's guidance, we expect revenue from TBSP to start contributing in September 2021, latest by April 2022. Both parties will each be responsible for their own revenue generation and expenses. Perak Transit will receive revenues principally from, among others, the rental of shops and kiosks, and advertising and promotional spaces (A&P). NSSIT will receive the ticket and boarding charges, bus entrance fees and facility charges pertaining to the terminal area. Of the total investment cost of RM9m, Perak Transit will bear RM6.5m and NSSIT RM2.5m.

Another right step forward for Perak Transit. We believe this contract is beneficial to the Group, as management has a reputable track record in managing IPTTs. This latest contract is different from the TSK agreement, where Perak Transit receives a fixed management fee from Energetic Point Sdn Bhd. Perak Transit's management can reap the rewards of their labour in TBSP, as revenues are not guaranteed and are dependent on management getting retail space and A&P tenants. We also believe that the Group will have no problem funding the RM6.5m capex with internally generated funds. We conservatively estimate a payback period of 5 to 6 years. We estimate this contract to have a PBT margin of c.70% and PAT margin of c.60%. While our calculations show that this contract will only contribute 2.5% to FY22E CNP of RM52m, combined with TSK's PAT contributions, the two maiden TMS contracts will make up c.4% of FY22E CNP.

Continued growth. In FY21, we expect the Group to secure three to four more TMS contracts. We view each new TMS contract as an additional profitable revenue source, as seen from the 60% PAT margins from its TSK and TBSP contracts. As TMS contracts only entail capex for renovation and upgrading of existing terminals, TMS provides a new avenue for growth to complement the Group's Develop-Own-Operate (DOO) projects. The Group's third DOO terminal – Bidor Sentral – will begin its construction in 3QFY21, and is expected to begin operations in 2023.

Risks to our call include: (i) high dependency on two advertising and promotional (A&P) clients; (ii) faster-than-expected loss of income from project facilitation fees, (iii) lower-than-expected take-up rates and footfall in Terminal Kampar Putra, and (iv) unexpected termination of TMS contracts.

Terminal Bas Shahab Perdana



Source: Company

Results Highlights

FYE Dec (RM'm)	4Q FY20	3Q FY20	QoQ Chg	4Q FY19	YoY Chg	12M FY20	12M FY19	YoY Chg
Revenue	**35.3**	**35.0**	**1%**	**32.8**	**8%**	**119.4**	**124.5**	**-4%**
EBITDA	25.2	23.3	8%	16.5	53%	78.0	63.8	22%
PBT	17.6	15.9	11%	9.2	91%	49.0	40.9	20%
Tax income / (expense)	-4.4	-3.8	14%	2.7	-265%	-7.0	-0.9	663%
Minority Interest	0.1	0.1	-20%	0.1	-15%	0.2	0.3	-9%
PATAMI	13.2	12.0	10%	11.8	12%	41.8	39.8	5%
Core PATAMI (CNP)	**13.2**	**12.0**	**10%**	**11.8**	**12%**	**41.8**	**39.9**	**5%**
Core EPS (sen)	2.08	1.88	10%	1.86	12%	6.59	6.28	5%
DPS (sen)	0.00	0.75	-100%	0.00	N/A	2.75	2.24	23%
EBITDA margin	71.4%	66.6%		50.3%		65.3%	51.3%	
PBT margin	50.0%	45.3%		28.2%		41.1%	32.9%	
Effective Tax Rate	-24.9%	-24.2%		28.9%		-14.2%	-2.2%	
Core PATAMI margin	37.4%	34.2%		36.1%		35.0%	32.0%	

Source: Company, Kenanga Research

Segmental Highlights

Revenue Breakdown (RM'm)	4Q FY20	3Q FY20	QoQ Chg	4Q FY19	YoY Chg	12M FY20	12M FY19	YoY Chg
Integrated Public Transportation Terminal	23.3	21.8	7%	15.1	54%	71.0	55.8	27%
Petrol Station Operations	5.5	6.6	-17%	8.5	-35%	22.9	35.1	-35%
Bus Operations	6.4	6.5	-2%	9.1	-30%	25.5	33.6	-24%
Mining Management	0.0	0.0	25%	0.0	N/A	0.0	0.0	N/A

Source: Company, Kenanga Research

Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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